

## The Paris Agreement and the Kyoto Protocol

The 2015 Paris Agreement first obliges all states to undertake ambitious climate protection. Its mechanisms including climate protection projects and linking emissions trading systems have yet to be developed in detail before they can replace the provisions of the Kyoto Protocol in 2020. The Kyoto Protocol requires participating industrialised countries to reduce their greenhouse gas emissions by 2020. It also provides tools for this purpose: in addition to intergovernmental emissions trading, it describes the flexible project mechanisms Joint Implementation or JI and Clean Development Mechanism or CDM.



## Climate Protection Projects of the CDM

The main contribution to emission reduction must be provided in one's own country. However, emission reductions achieved through climate protection projects in other countries can also be credited to a certain extent. Eco-friendly technologies that have to contribute to sustainable development can be implemented in developing countries. In return, project investors receive emission certificates corresponding to the greenhouse gas amount saved in comparison to a typical local technology. Emission reductions are implemented where the costs are the lowest. Thus, the economic burden of meeting the Kyoto targets is lower. The CDM Executive Board of the Secretariat of the United Nations Framework Convention on Climate Change monitors the implementation of CDM projects and issues certificates for successful project implementation. Enterprises participating in European emissions trading may use these credits by 2020 to offset a part of their emissions.

### ALLOWANCE AND CERTIFICATE TYPES

- ▶ **AAU (Assigned Amount Units):**  
"Assigned amount" of allowances derived from the Kyoto Protocol; AAUs can only be traded between states
- ▶ **EUA (European Emissions Allowances, Emissionsberechtigungen):**  
Allowances within the EU emissions trading scheme at enterprise level ("European Emissions Allowances")
- ▶ **CER (Certified Emission Reductions):**  
"Certified emission reductions" for successfully conducted CDM projects
- ▶ **ERU (Emission Reduction Units):**  
"Emission reduction units" for successfully conducted JI projects

## CER and ERU Use is Limited

If an operator of an installation subject to emissions trading intends to use CERs and ERUs in the third trading period of the EU Emissions Trading Scheme (2013-2020) for his obligation to surrender certificates, he must first exchange them for European emission allowances. The **quantity of such exchanges is limited**: operators in Germany could use JI and CDM credits equalling 22 percent of their individual allocation amount in the 2008-2012 period. If they have not used up this maximum by 2012, they can use it in the third trading period. For new installations and those newly included in the emissions trading scheme, operators can use credits of up to 4.5 percent of their emission amount by 2020. Operators with a 2008-2012 allocation and carrying out a significant capacity extension or a new activity subject to emissions trading, can choose between 22 percent of the 2008-2012 allocation or 4.5 percent of their emissions. Aircraft operators may use credits to offset a total of 1.5 percent of their emission certificates to be surrendered for the third trading period.

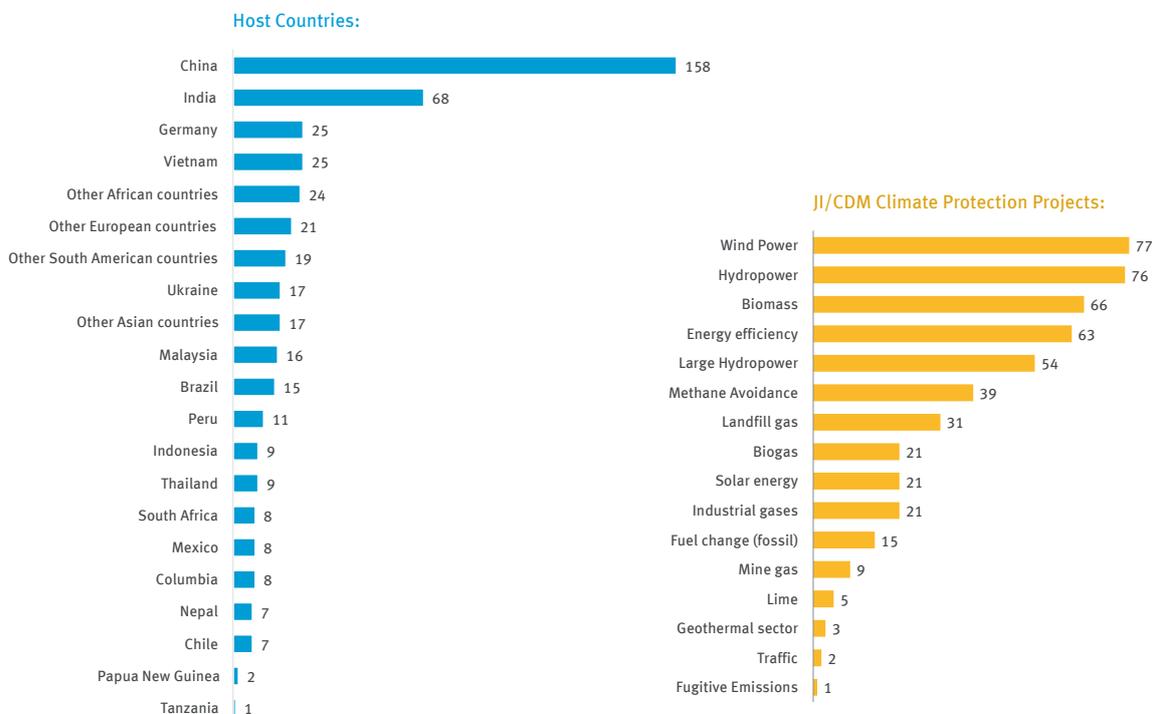
In addition, there are **project-specific restrictions**: projects for the reduction of trifluoromethane (HFC-23) and nitrous oxide (N<sub>2</sub>O) from adipic acid production can no longer be used to offset emissions since 2013. CERs and ERUs from nuclear projects – which are internationally prohibited – and agriculture and forestry projects (LULUCF) have been excluded from the beginning for use in the EU Emissions Trading Scheme.

Finally, there are **time limits for the use of credits in the EU Emissions Trading Scheme:**

- ▶ Projects registered and emission reductions before 2013: CERs and ERUs could only be exchanged for EUAs by 31/03/2015 and thus be used in the third trading period.
- ▶ CDM projects registered before the end of 2012: CERs obtained for reductions starting in 2013 may be used in the 2013-2020 period, but must be exchanged for EUAs by 31/12/2020.
- ▶ JI projects registered before the end of 2012: ERUs for reductions cannot be issued after 2013 and therefore cannot be used as long as no mitigation targets have been ratified and AAUs based thereon assigned for the second commitment period of the Kyoto Protocol (2013-2020).
- ▶ CDM projects registered from 2013: CERs may only be used in the EU Emissions Trading Scheme if they are from the so-called Least Developed Countries, i.e. the poorest developing countries.

**USE OF CREDITS IN EU EMISSIONS TRADING: A CASE STUDY**

- ▶ **The operator of an installation in Germany may use CERs/ERUs of up to 22 percent of his allocation amount for the 2008-2012 second trading period.**
- ▶ **He has largely exhausted this possibility since he has already surrendered 16 percent of the allowable credits in 2011.**
- ▶ **He may therefore use 6 percent by 2020 to offset his emissions.**
  - ▶ He exchanged 3.5 percent of credits obtained for reductions in 2012 for EUAs before 31/03/2015 in order to use them in the third trading period.
  - ▶ He would like to obtain 1.5 percent of the credits still allowed from a CDM project in China that was registered in 2012 and is also recognised in the European emissions trading. The project has generated credits since 2013. The operator can still exchange these CERs for EUAs because the pre-2013 date of the initial project registration at the CDM Executive Board is relevant.
  - ▶ The operator can now use 1 percent CERs and ERUs by 2020. He could therefore purchase CERs from a CDM project in Somalia due to start in 2016. The project is implemented in one of the poorest countries of the world, thus it meets the EU's requirements for projects to be recognised in the EU ETS after 2012. They may only be implemented in Least Developed Countries. The operator also exchanged the CERs from this project for EUAs at the emissions trading registry and can surrender them.



Host countries and JI/CDM climate protection projects with DEHSt approval (as of May 2018)